

Boise State University

*Financial Statements for the
Year Ended June 30, 2004 and
Independent Auditors' Reports*

BOISE STATE UNIVERSITY

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INDEPENDENT AUDITORS' REPORT

State Board of Education
Boise, Idaho

We have audited the accompanying statement of net assets of Boise State University (the "University") and its discretely presented component units as of June 30, 2004, and the related statements of revenues, expenses and changes in net assets and of cash flows (for the University only) for the year then ended. These financial statements are the responsibility of the University's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, such financial statements present fairly, in all material respects, the financial position of Boise State University and its discretely presented component units at June 30, 2004, and changes in its net assets and cash flows (for the University only) for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 1, the University adopted the provisions of Governmental Accounting Standards Board Statement No. 39, *Determining Whether Certain Organizations Are Component Units* an amendment of *GASB Statement 14*.

The Management's Discussion and Analysis listed in the table of contents is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. This supplementary information is the responsibility of the University's management. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 22, 2004 on our consideration of the University's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting

and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

DeBette & Touche LLP

October 22, 2004

BOISE STATE UNIVERSITY

MANAGEMENT'S DISCUSSION AND ANALYSIS AS OF AND FOR THE YEAR ENDED JUNE 30, 2004

Management's Discussion and Analysis ("MD&A") presents an overview of the financial performance of Boise State University (the "University") based on currently known facts, decisions and conditions and is designed to assist readers in understanding the accompanying financial statements. The MD&A discusses financial performance during the current year in comparison to prior year with emphasis on current year.

Overview of the Financial Statements and Financial Analysis

The financial statements for the year ended June 30, 2004 are prepared in accordance with Governmental Accounting Standards Board ("GASB") principles. There are three financial statements presented: the statement of net assets; the statement of revenues, expenses, and changes in net assets; and the statement of cash flows.

Boise State University adopted GASB Statement No. 39, "*Determining Whether Certain Organizations are Component Units an amendment of GASB 14.*" during the current fiscal year. This statement requires disclosure, as a component unit, any significant organizations that raise and hold economic resources for the direct benefit of Boise State University. Organizations that are legally separate, tax-exempt entities and that meet all of the following criteria should be discretely presented as component units. These criteria are:

1. The economic resources received or held by the separate organization are entirely or almost entirely for the direct benefit of Boise State University.
2. Boise State University is entitled to, or has the ability to otherwise access, a majority of the economic resources received or held by the separate organization.
3. The economic resources received or held by an individual organization that Boise State University are entitled to must be significant to Boise State University.

After review of all affiliated entities, management has determined that Boise State University has two component units for purposes of these financial statements. The component units are the Boise State University Foundation, Inc. (the "Foundation") and the Bronco Athletic Association, Inc. (the "BAA") with net assets of approximately \$55.2 million and \$11.5 million as of June 30, 2004, respectively.

Comparative data for the prior period is not provided. This is a year of transition to a new reporting structure under GASB No. 39. Comparative data will be provided beginning with fiscal year 2005 financial statements.

Statement of Net Assets

The statement of net assets presents the assets, liabilities, and net assets of the University, the Primary Government, as of the fiscal year end. The purpose of the statement of net assets is to present to the readers of the financial statements a point in time fiscal snapshot of the University. The statement of net assets presents end-of-year data concerning assets (current and noncurrent), liabilities (current and noncurrent), and net assets (assets minus liabilities). The difference between current and noncurrent classification is discussed in the footnotes to the financial statements.

From the data presented, readers of the statement of net assets are able to determine the assets available to continue the operations of the University. They are also able to determine how much the University owes vendors, investors, and lending institutions. Finally, the statement of net assets provides a picture of the net assets, (assets minus liabilities) and their availability for expenditure by the University.

Net assets are divided into four major categories. The first category, invested in capital assets, net of related debt, provides the University's equity in property, plant and equipment. The second net asset category is restricted, non-expendable net assets. Restricted non-expendable net assets are those that are required to be retained in perpetuity. The next net asset category is restricted, expendable net assets. Restricted, expendable net assets are available for expenditures by the University but must be spent for purposes as determined by donors and/or external entities that have placed time or purpose restrictions on the use of the assets. The final category is unrestricted net assets. Unrestricted net assets are available to the University for any lawful purpose of the institution.

The statement also presents combined assets, liabilities and net assets of the University's component units in a discrete column.

Summary Statement of Net Assets
June 30, 2004
(In Thousands)

	University	Component Units
ASSETS:		
Current assets	\$ 75,113	\$ 10,976
Property, plant and equipment—net	230,152	10,904
Other assets	<u>56,702</u>	<u>54,951</u>
Total assets	<u>\$ 361,967</u>	<u>\$ 76,831</u>
LIABILITIES:		
Current liabilities	\$ 28,345	\$ 1,970
Noncurrent liabilities	<u>133,866</u>	<u>8,165</u>
Total liabilities	162,211	10,135
NET ASSETS:		
Invested in capital assets—net of related debt	122,398	10,904
Restricted—expendable	18,583	16,558
Restricted—nonexpendable		37,460
Unrestricted	<u>58,775</u>	<u>1,774</u>
Total net assets	<u>199,756</u>	<u>66,696</u>
Total liabilities and net assets	<u>\$ 361,967</u>	<u>\$ 76,831</u>

Boise State University's total assets and liabilities increased in fiscal year 2004 by \$41,961,293 and \$32,244,927, respectively. Net assets increased by \$9,716,366.

Boise State's assets increased most dramatically in the area of property, plant and equipment. The University Courts Apartments and the new Keiser and Taylor residence halls were completed, continuing the trend of converting bond proceeds held as other assets to capital assets. In addition, the University was able to acquire a substantial amount of land throughout its designated expansion area. Liabilities increased mainly due to the Series 2004A bond issuance in the amount of \$31,480,000.

Statement of Revenues, Expenses, and Changes in Net Assets

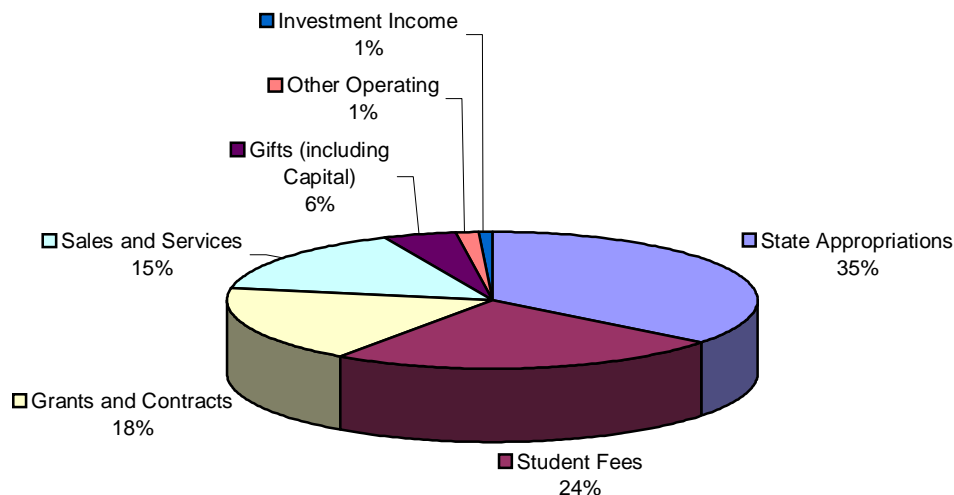
Changes in total net assets as presented on the statement of net assets are based on the activity presented in the statement of revenues, expenses, and changes in net assets. The purpose of the statement is to present the revenues (operating and nonoperating) received by the University, and its component units, and the expenses (operating and nonoperating) paid by the institution and any other revenues, expenses, gains and losses received or spent by the University. The University will always reflect a net operating loss because state general fund appropriations are not reported as operating revenue.

Generally speaking, for Boise State University, operating revenues are received for providing services to the various customers and constituencies of the University. Operating expenses are those expenses paid to acquire or produce the services provided in return for operating revenues, and to carry out the functions of the University. Nonoperating revenues are revenues received for which services are not provided. For example, state general fund appropriations (representing 35% of total revenues) are nonoperating because the Idaho State Legislative process provides them to the University without the Legislature directly receiving services for those revenues.

The mission of Boise State University (the "University") and its component units are different. The component unit is comprised of fund-raising entities and as such certain revenue items are non-operating for the University but are classified as operating for the component units. Nonoperating expenses include payments to Boise State University.

Boise State University

Total Revenues for Fiscal Year 2004



Statements of Revenues, Expenses, and Changes in Net Assets
Year Ended June 30, 2004
(In Thousands)

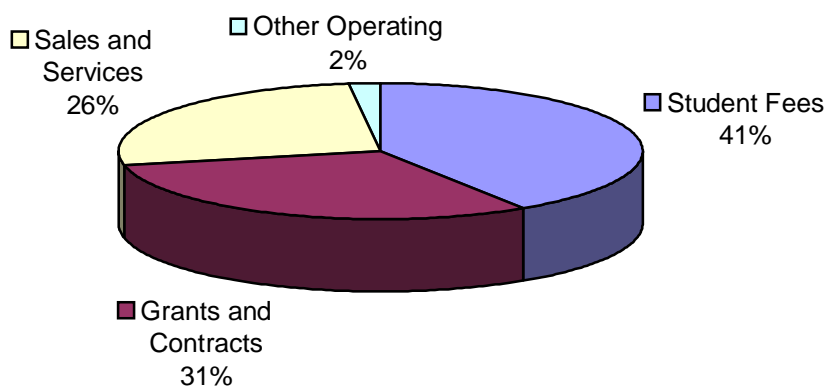
	University	Component Units
Operating revenues	\$ 122,259	\$ 11,594
Operating expenses	<u>194,334</u>	<u>1,677</u>
Operating (loss) income	<u>(72,075)</u>	<u>9,917</u>
Non-operating revenues and expenses	78,038	(1,450)
Income before other revenues and expenses	<u>5,963</u>	<u>8,467</u>
Other revenues and expenses	<u>3,754</u>	<u>11</u>
Increase in net assets	9,716	8,478
Net assets—Beginning of year	<u>190,040</u>	<u>58,218</u>
Net assets—End of year	<u><u>\$ 199,756</u></u>	<u><u>\$ 66,696</u></u>

The statement of revenues, expenses, and changes in net assets reflects an overall increase for Boise State of \$9,716,367 in net assets at year-end. Some highlights of the information presented on the statement of revenues, expenses, and changes in net assets are as follows:

Teaching, research and auxiliary operations make up the majority of operating revenues. Student fees represent 41% of operating revenues and increased approximately \$4.5 million over fiscal year 2003. Research generated 31% of operating revenues, increasing approximately \$315,000 over fiscal year 2003 while auxiliary and educational sales provided 26% or approximately \$5.8 million more than the prior year.

Boise State University

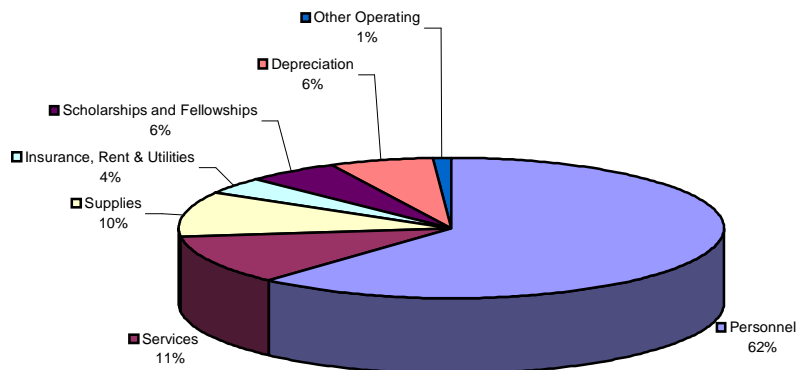
Operating Revenues for Fiscal Year 2004



62% of operating expenses are in the area of personnel. Payments to servicers and suppliers represent 25% of operating expenses. Payments to students for scholarships total 6% of operating expenses. Depreciation expense also accounted for 6% of operating expenses. Operating expenses increased approximately \$10 million or 5.5% over fiscal year 2003 levels. The increases were concentrated in personnel and services.

Boise State University

Operating Expenses for Fiscal Year 2004



The resulting net operating loss is offset by approximately \$78 million of net nonoperating revenues. In addition to the state general fund appropriation of approximately \$74 million, gifts of \$9 million were received and used primarily for scholarships. Fiscal year 2004 state appropriated revenue increased by 3.7% from that received in fiscal year 2003.

Finally, other revenues increased by 330.6% during fiscal year 2004 as a result of increased capital grants and gifts including the donation of Capital Village and the completion of the first phase of the Information Technology building including the West Campus Infrastructure.

Statement of Cash Flows

The final statement presented by Boise State University is the statement of cash flows. The statement of cash flows presents detailed information about the cash activity of the University during the year. The statement of cash flows is not presented for component units. The statement is divided into five parts. The first part deals with operating cash flows and shows the net cash used by the operating activities of the University. The second section reflects cash flows from noncapital financing activities. This section reflects the cash received and spent for nonoperating, noninvesting and noncapital financing purposes. The third section deals with cash flows from capital and related financing activities. This section deals with the cash used for the acquisition and construction of capital and related items. The fourth section reflects the cash flows from investing activities and shows the purchases, proceeds and interest received from investing activities. The fifth section reconciles the net cash used in operating activities to operating income or loss reflected on the statement of revenues, expenses, and changes in net assets.

Statement of Cash Flows
Year Ended June 30, 2004
(In Thousands)

	University
Cash provided (used) by:	
Operating activities	\$ (59,619)
Noncapital financing activities	83,077
Capital and related financing activities	(23,838)
Investing activities	<u>589</u>
Net change in cash	209
Cash—Beginning of year	<u>35,298</u>
Cash—End of year	<u>\$ 35,507</u>

The net change in cash is relatively small, netting to approximately \$209,000. The noteworthy information relates to the inflows and outflows of cash. Inflows of cash resulted from the issuance of Series 2004A bonds \$31,480,000, proceeds from the sale of maturities and investments \$86,297,354 and Perkins loan collections \$1,796,267. Significant cash outflows relate to purchases of capital assets \$50,929,669 and purchase of investments \$87,720,175.

Capital Asset and Debt Administration

The University issued Series 2004A bonds for the construction of key projects to accommodate the needs of the growing enrollment. These projects are required to accommodate the needs of an expanding enrollment and include an Interactive Learning Center (classroom and lab facility), a Student Services Center, and an energy systems improvement project.

Economic Outlook

Idaho's economic outlook appears to be improving this fiscal year. The University's employees received raises effective fiscal year 2005 for the first time in two years. In fiscal year 2003, the University's appropriated budget was reduced by 10% or \$7,925,900. During fiscal year 2003, the State of Idaho issued a budget revision further reducing the University's appropriated spending authority by \$1,966,400. The fiscal year 2004 appropriated general fund budget was increased over 2003 levels by \$761,400. Appropriations are again increased by \$4,844,200 for fiscal year 2005.

STATEMENT OF NET ASSETS

JUNE 30, 2004

See notes to financial statements.

LIABILITIES	University	Component Units (Note 11)
CURRENT LIABILITIES:		
Accounts payable and accrued liabilities	\$ 4,670,231	\$ 269,515
Accrued salaries and benefits payable	12,723,653	
Accrued interest payable	1,556,703	51,098
Deferred revenue	5,007,633	1,360,413
Current portion of long-term debt	4,245,473	230,000
Other current liabilities	<u>142,257</u>	<u>58,648</u>
Total current liabilities	28,345,950	1,969,674
NONCURRENT LIABILITIES:		
Deferred revenue		830,167
Long-term debt	132,526,012	5,756,900
Amounts held in custody for others		967,608
Other noncurrent liabilities	<u>1,339,539</u>	<u>610,046</u>
Total noncurrent liabilities	<u>133,865,551</u>	<u>8,164,721</u>
TOTAL LIABILITIES	<u>162,211,501</u>	<u>10,134,395</u>
NET ASSETS:		
Invested in capital assets—net of related debt	122,397,657	10,903,628
Restricted—expendable	18,583,364	16,558,287
Restricted—nonexpendable		37,459,639
Unrestricted	<u>58,774,900</u>	<u>1,774,599</u>
TOTAL NET ASSETS	<u>199,755,921</u>	<u>66,696,153</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 361,967,422</u>	<u>\$ 76,830,548</u>

BOISE STATE UNIVERSITY

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS YEAR ENDED JUNE 30, 2004

	University	Component Units (Note 11)
OPERATING REVENUES:		
Student fees, net of scholarship discounts and allowances of \$11,721,114	\$ 49,796,368	\$ -
Federal grants and contracts	27,366,252	
State and local grants and contracts	7,749,896	
Private grants and contracts	2,761,136	
Sales and services of educational activities	2,155,892	
Sales and services of auxiliary enterprises	30,093,016	
Gifts		11,397,032
Other	<u>2,336,592</u>	<u>197,106</u>
Total operating revenues	122,259,152	11,594,138
OPERATING EXPENSES:		
Personnel cost	119,963,321	880,517
Services	21,739,097	174,505
Supplies	20,398,149	173,286
Insurance, utilities and rent	7,155,719	97,646
Scholarships and fellowships	10,934,183	
Depreciation	11,908,205	299,259
Other	<u>2,235,307</u>	<u>51,467</u>
Total operating expenses	<u>194,333,981</u>	<u>1,676,680</u>
OPERATING (LOSS) INCOME	(72,074,829)	9,917,458
NONOPERATING REVENUES (EXPENSES):		
State appropriations	73,868,900	398,458
Gifts (includes payments from the Foundation and BAA of \$5,393,791 and \$2,627,613, respectively)	9,208,641	
Payments to the University		(8,021,404)
Investment income	1,990,755	1,848,675
Net (decrease) increase in fair value of investments	(1,328,721)	4,543,071
Interest, net of capitalized interest of \$138,249	(5,511,946)	(218,461)
Other	<u>(190,044)</u>	<u>(925)</u>
Net nonoperating revenues (expenses)	<u>78,037,585</u>	<u>(1,450,586)</u>
INCOME BEFORE OTHER REVENUES AND EXPENSES	5,962,756	8,466,872
OTHER REVENUES AND EXPENSES:		
Capital gifts	4,626,274	
(Loss) gain on retirement of property, plant and equipment	<u>(872,663)</u>	<u>10,990</u>
Total other revenues and expenses	<u>3,753,611</u>	<u>10,990</u>
INCREASE IN NET ASSETS	9,716,367	8,477,862
NET ASSETS—Beginning of year	<u>190,039,554</u>	<u>58,218,291</u>
NET ASSETS—End of year	<u>\$ 199,755,921</u>	<u>\$ 66,696,153</u>

See notes to financial statements.

BOISE STATE UNIVERSITY

STATEMENT OF CASH FLOWS YEAR ENDED JUNE 30, 2004

	University
CASH FLOWS FROM OPERATING ACTIVITIES:	
Student fees	\$ 47,978,579
Grants and contracts	37,805,910
Sales and services of educational activities	2,383,265
Sales and services of auxiliary enterprises	30,570,288
Other operating receipts	2,742,473
Payments to employees	(117,874,135)
Payments for services	(21,633,279)
Payments to suppliers	(20,893,688)
Payments for insurance, utilities and rent	(7,199,280)
Payments for scholarships and fellowships	(10,925,951)
Loans issued to students	(1,407,183)
Collections of loans to students	1,796,267
Payments to state for appropriated student fees	(33,753,408)
Payments from state for appropriated student fees	32,985,169
Other payments	<u>(2,194,186)</u>
Net cash used in operating activities	<u>(59,619,159)</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:	
State appropriations	73,868,900
Gifts	9,208,641
Direct lending receipts	43,320,469
Direct lending payments	<u>(43,320,469)</u>
Net cash provided by noncapital financing activities	<u>83,077,541</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:	
Capital grants and gifts	4,626,274
Purchases of property, plant and equipment	(50,929,669)
Proceeds from long-term debt	32,265,554
Principal paid on long-term debt and leases	(3,235,873)
Interest paid on long-term debt and leases	(5,594,735)
Payments for bond issuance costs	(431,061)
Other	<u>(538,595)</u>
Net cash used in capital and related financing activities	<u>(23,838,105)</u>

(Continued)

BOISE STATE UNIVERSITY

STATEMENT OF CASH FLOWS YEAR ENDED JUNE 30, 2004

	University
CASH FLOWS FROM INVESTING ACTIVITIES:	
Purchase of investments	\$(87,720,175)
Proceeds from sales and maturities of investments	86,297,354
Investment income	<u>2,011,508</u>
Net cash provided by investing activities	<u>588,687</u>
NET INCREASE IN CASH AND CASH EQUIVALENTS	208,964
CASH AND CASH EQUIVALENTS—Beginning of year	<u>35,297,825</u>
CASH AND CASH EQUIVALENTS—End of year	<u><u>\$ 35,506,789</u></u>
RECONCILIATION OF NET OPERATING LOSS TO NET CASH AND AND CASH EQUIVALENTS USED IN OPERATING ACTIVITIES:	
Operating loss	\$(72,074,829)
Adjustments to reconcile operating loss to net cash used in operating activities:	
Depreciation expense	11,908,205
Changes in assets and liabilities:	
Accounts receivable and unbilled charges—net	(2,651,411)
Student loans receivable, net	486,221
Due from State agencies	(768,239)
Inventories	(648,234)
Other assets	560,301
Accounts payable and accrued liabilities	1,875,827
Accrued salaries and benefits payable	286,561
Deferred revenue	1,421,411
Other liabilities	<u>(14,972)</u>
Net cash used in operating activities	<u><u>\$(59,619,159)</u></u>
SUPPLEMENTAL DISCLOSURE OF NONCASH TRANSACTIONS:	
Property, plant and equipment acquired through DPW appropriations	\$ 2,272,579
Donated assets	\$ 2,228,118

See notes to financial statements.

(Concluded)

BOISE STATE UNIVERSITY

NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2004

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Boise State University (the “University”) is part of the public system of higher education in the State of Idaho. The system is considered part of the State of Idaho financial reporting entity. The State Board of Education, appointed by the Governor and confirmed by the legislature, directs the system. The University is located in Boise, Idaho. The significant accounting policies are described below to enhance the usefulness of the financial statements to the reader.

Financial Statement Presentation—Effective July 1, 2003 the University adopted Governmental Accounting Standards Board (GASB) Statement No. 39, *Determining Whether Certain Organizations Are Component Units*, an amendment of GASB 14. This Statement provides additional guidance for determining whether certain organizations, such as not-for-profit foundations, for which the primary institution is not financially accountable, should be reported as component units based on the nature and significance of their relationship with the primary institution. The provisions of this Statement are effective for financial statements for the fiscal year ending June 30, 2004. At this time, the University has determined that by definition the Boise State University Foundation, Inc. and the Bronco Athletic Association, Inc. (the “Component Units”) are component units of the University. The financial activity of the Component Units are included in the financial statements through a combined discrete presentation.

Basis of Accounting—For financial reporting purposes, the University is considered a special-purpose government engaged only in business-type activities. Accordingly, the University’s financial statements have been presented using the economic resources measurement focus and the accrual basis of accounting. Under the accrual basis, revenues are recognized when earned, and expenses are recorded when an obligation has been incurred. All significant intra-agency transactions have been eliminated.

The University has the option to apply all Financial Accounting Standards Board (“FASB”) pronouncements issued after November 30, 1989, unless FASB conflicts with GASB. The University has elected to not apply FASB pronouncements issued after the applicable date.

Cash and Cash Equivalents—The University considers all liquid investments with a remaining maturity of three months or less at the date of acquisition to be cash equivalents.

Student Loans Receivable—Loans receivable from students bear interest at rates ranging from 3% to 7% and are generally repayable in installments to the University over a 5 to 10 year period commencing 6 or 9 months after the date of separation from the University. Collection on these student loans are primarily handled through a third party servicer.

Accounts Receivable—Accounts receivable consists of fees charged to students and auxiliary enterprise services provided to students, faculty and staff, the majority of each residing in the State of Idaho. Accounts receivable also include amounts due from the federal government, state and local governments, or private sources, in connection with reimbursement of allowable expenditures made pursuant to the University’s grants and contracts. Accounts receivable are recorded net of estimated uncollectible amounts.

Inventories—Inventories, consisting primarily of bookstore inventories, are valued at the lower of first-in, first-out (“FIFO”) cost or market.

Investments—The University accounts for its investments at fair value in accordance with GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*. Changes in unrealized gains or losses on the carrying value of investments are reported as a component of change in fair value of investments in the statement of revenues, expenses, and changes in net assets.

Noncurrent Investments—Investments that are externally restricted to make debt service payments, maintain sinking or reserve funds, or to purchase or construct capital or other noncurrent assets, are classified as noncurrent assets in the statement of net assets.

Property, Plant and Equipment—Property, plant and equipment are stated at cost when purchased or constructed, or if acquired by gift, at the estimated fair value at the date of gift. The University’s capitalization policy includes all items with a unit cost of \$5,000 or more, and an estimated useful life of greater than one year. Renovations to buildings and land improvements that significantly increase the value or extend the useful life of the structure are capitalized. Routine repairs and maintenance are charged to operating expense in the period in which the expense was incurred.

Depreciation is computed using the straight-line method over the estimated useful lives of the assets, generally 40 to 50 years for buildings, 20 to 25 years for land improvements, 10 years for library books, and 5 to 13 years for equipment.

The University has certain collections that it did not capitalize, including the Nell Shipman Film collection and Albertson’s Library Special Collections. These collections adhere to the University’s policy to (a) maintain them for public exhibition, education or research; (b) protect, keep unencumbered, care for, and preserve them; and (c) require proceeds from their sale to be used to acquire other collection items. Generally accepted accounting principles permit collections maintained in this manner to be charged to operations at the time purchased rather than capitalized.

Accrued Leave Liability—Employee vacation pay that is earned but unused is accrued at year-end for financial statement purposes. Included in current accrued salaries and benefits payable in the statement of net assets, and as a component of personnel cost in the statement of revenues, expenses, and changes in net assets is \$3,970,073 for 2004.

Deferred Revenues—Deferred revenues include amounts received for fees and certain auxiliary activities prior to the end of the fiscal year but related to the subsequent accounting period.

Noncurrent Liabilities—Noncurrent liabilities include principal amounts of revenue bonds payable, notes payable, and capital lease obligations with contractual maturities greater than one year and other liabilities that will not be paid within the next fiscal year.

Net Assets—The University’s net assets are classified as follows:

Invested in Capital Assets, Net of Related Debt—This represents the University’s total investment in capital assets, net of outstanding debt obligations related to those capital assets. To the extent debt has been incurred but not yet expended for capital assets, such amounts are not included as a component of invested in capital assets, net of related debt.

Restricted—Expendable—Restricted expendable net assets include resources in which the University is legally or contractually obligated to spend in accordance with restrictions imposed by external third parties.

Restricted—Nonexpendable – Nonexpendable restricted net assets consist of endowment and similar type funds in which donors or other outside sources have stipulated, as a condition of the gift instrument, that the principal is to be maintained inviolate and in perpetuity, and invested for the purpose of producing present and future income, which may either be expended or added to principal.

Unrestricted—Unrestricted net assets represent resources derived from student fees, state appropriations, and sales and services of educational departments and auxiliary enterprises. These resources are used for transactions related to the educational and general operations of the University, and may be used to meet current expenses for any lawful purpose, and in accordance with Board policy.

When an expense is incurred that can be paid using either restricted or unrestricted resources, expense allocation decisions are made on a program-by-program basis. The University does not have a policy regarding the preferred first usage of unrestricted or restricted net assets.

Income Taxes—The University, as a political subdivision of the State of Idaho, is excluded from federal income taxes under Section 115(1) of the Internal Revenue Code, as amended.

Classification of Revenues—The University has classified its revenues as either operating or nonoperating revenues according to the following criteria:

Operating Revenues—Operating revenues include activities that have the characteristics of exchange transactions, such as (1) student fees, net of scholarship discounts and allowances, (2) sales and services of auxiliary enterprises, (3) most federal, state and local grants and contracts and federal appropriations, and (4) interest on institutional student loans.

Nonoperating Revenues—Nonoperating revenues include activities that have the characteristics of nonexchange transactions, such as gifts and contributions, and other revenue resources that are defined as nonoperating revenues by GASB Statement No. 9, *Reporting Cash Flows of Proprietary and Nonexpendable Trust Funds and Governmental Entities That Use Proprietary Fund Accounting*, and GASB Statement No. 34, such as state general appropriations and investment income.

Scholarship Discounts and Allowances—Student fee revenues, and certain other revenues from students, are reported net of scholarship discounts and allowances in the statements of revenues, expenses, and changes in net assets. Scholarship discounts and allowances are the difference between the stated charge for goods and services provided by the University, and the amount that is paid by students and/or other third parties making payments on the students' behalf. Certain governmental grants, such as Pell grants, and other federal, state or nongovernmental programs, are recorded as either operating or nonoperating revenues in the University's financial statements. To the extent that revenues from such programs are used to satisfy student fees and related charges, the University has recorded a scholarship discount and allowance.

New Accounting Standards—In March 2003, the GASB issued Statement No. 40, *Deposit and Investment Risk Disclosures*. Statement No. 40 amends GASB Statement No. 3, *Deposits with Financial Institutions, Investments (including Repurchase Agreements), and Reverse Repurchase Agreements*. The objective of this Statement is to update the custodial credit risk disclosure requirements of GASB Statement No. 3 and to establish more comprehensive disclosure requirements addressing other common risks of the deposits and investments of state and local governments. The requirements of this Statement are effective for the University's fiscal year ending June 30, 2005. The University has determined that this statement will not have a significant impact on the financial statements.

In November 2003, the GASB issued Statement No. 42, *Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries*. This Statement establishes accounting and financial reporting standards for impairment of capital assets and requirements for application of related insurance recoveries. The University has not completed the process of evaluating the impact that will result from adopting this Statement and is therefore unable to disclose the impact that adopting the Statement will have on its financial statements. The requirements of this Statement are effective for the University's fiscal year ending June 30, 2006.

In June 2004, the GASB issued Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*. This Statement generally requires that the University account for and report the cost and obligations related to postemployment healthcare and other nonpension benefits ("OPEB") and include disclosures regarding its OPEB plans. OPEB costs are likely to be based on actuarially determined amounts that, if paid on an ongoing basis, generally would provide sufficient resources to pay benefits as they come due. The provisions of Statement No. 45 may be applied prospectively and do not require the University to fund its OPEB plans. The University may establish its OPEB liability at zero as of the beginning of the initial year of implementation; however, the unfunded liability is required to be amortized over future periods. The requirements of this Statement for the University are effective for the fiscal year ending June 30, 2008. The University has not completed the process of evaluating the impact that will result from adopting this Statement and is therefore unable to disclose the impact that adopting the Statement will have on its financial statements.

2. CASH AND CASH EQUIVALENTS AND INVESTMENTS

Cash and cash equivalents are deposited with various financial institutions. Such deposits for the year ended June 30, 2004 are categorized below to give an indication of the level of risk assumed by the University at year end. Category 1 includes deposits that are insured or collateralized with securities held by the University or its agent in the University's name. Category 2 includes uninsured deposits collateralized with securities held by the pledging financial institution's trust department or agent in the University's name. Category 3 includes uninsured deposits, which are uncollateralized. Balances of deposits by such categories at June 30, 2004 consisted of the following:

	University
Category 1	\$ 100,000
Category 2	11,029,430
Category 3	130,400
Cash equity with treasurer (not categorized)	<u>24,246,959</u>
Total	<u>\$35,506,789</u>

Of the cash and cash equivalents reported on the statement of net assets at June 30, 2004, \$4,018,567 is restricted by donors, granting agencies, or other contractual agreements. The book value of deposits does not materially differ from the bank balance of deposits.

Investments—The general investment policy of the University as adopted by the State Board of Education (the “Board”) is that investments in securities are to be made with the objectives of maximizing long-term total return, ensuring safety of principal and providing satisfactory current income.

Funds may be invested in FDIC passbook savings accounts, certificates of deposit, U.S. securities, federal funds repurchase agreements, reverse repurchase agreements, federal agency securities, large money market funds, banker’s acceptances, corporate bonds of AA grade or better, mortgage-backed securities of AA grade or better, and commercial paper of prime or equivalent grade. Authority to make investments in any other form requires prior Board approval.

Covenants of certain bond resolutions restrict investment of funds to U.S. Government or government guaranteed securities.

Investments also consist of U.S. Treasury strips. The University invests in interest-only strips (a derivative) to maximize yields. These investments are based on cash flows from interest payments on underlying U.S. Treasury Securities. The underlying securities are guaranteed by the U.S. Government. Therefore, these investments do not present the same level of risk as do other forms of derivatives.

Investments Held in Trust represent government securities held in the University’s name. The entire amount of these investments are restricted by bond indentures or other contractual agreements.

The University’s investments described above are categorized below to give an indication of the level of risk assumed by the University at June 30, 2004. Category 1 includes investments that are insured or registered, or for which the securities are held by the University or its agent in the University’s name. Category 2 includes uninsured and unregistered investments for which the securities are held by the counterparty’s trust department or agent in the University’s name. Category 3 includes uninsured and unregistered investments for which the securities are held by the counterparty whether or not in the University’s name; or by the counterparty’s trust department or agent but not in the University’s name.

	University			
	Investment Risk Category			
	1	2	3	Total
INVESTMENTS:				
U.S. Government or government guaranteed securities	\$ -	\$49,598,656	\$ -	\$49,598,656
Corporate securities		673,255		673,255
	<u>\$ -</u>	<u>\$50,271,911</u>	<u>\$ -</u>	<u>\$50,271,911</u>
INVESTMENTS HELD IN TRUST:				
U.S. Government or government guaranteed securities	\$ -	\$ 3,363,931	\$ -	\$ 3,363,931
	<u>\$ -</u>	<u>\$ 3,363,931</u>	<u>\$ -</u>	<u>\$ 3,363,931</u>

3. ACCOUNTS RECEIVABLE AND UNBILLED CHARGES

Accounts receivable and unbilled charges consists of the following at June 30, 2004:

	University
Student fees	\$ 6,896,695
Auxiliary enterprises and other operating activities	2,364,884
Federal, state, and private grants and contracts	730,001
Unbilled charges	<u>4,520,756</u>
	14,512,336
Less allowance for doubtful accounts	<u>(1,120,630)</u>
Accounts receivable and unbilled charges—net	<u>\$ 13,391,706</u>

4. STUDENT LOANS RECEIVABLE

Student loans made through the Federal Perkins Loan Program (the “Program”) comprise substantially all of the loans receivable at June 30, 2004. The Program provides for cancellation of a loan at rates of 10% to 30% per year up to maximum of 100% if the participant complies with certain provisions. The federal government reimburses the University for amounts cancelled under these provisions.

As the University determines that loans are non-collectible and not eligible for reimbursements by the federal government, the loans are written off and assigned to the U.S. Department of Education. The University has provided an allowance for non-collectible loans, which, in management’s opinion, is sufficient to absorb loans that will ultimately be written off. At June 30, 2004, the allowance for non-collectible loans was \$51,696.

In the event the University should withdraw from the Federal Perkins loan program or the Federal government were to cancel the program, the University would be required to repay \$8,030,556 as of June 30, 2004

5. PROPERTY, PLANT AND EQUIPMENT

Following are the changes in capital assets for the year ended June 30, 2004 (dollars in thousands):

	University				
	Balance June 30, 2003	Additions	Transfers	Retirements	Balance June 30, 2004
Property, plant and equipment not being depreciated:					
Land	\$ 13,077	\$ 8,028	\$ -	\$ -	\$ 21,105
Construction in progress	<u>11,427</u>	<u>29,995</u>	<u>(11,709)</u>		<u>29,713</u>
Total property, plant and equipment not being depreciated	<u>\$ 24,504</u>	<u>\$ 38,023</u>	<u>\$ (11,709)</u>	<u>\$ -</u>	<u>\$ 50,818</u>
Other property, plant and equipment:					
Buildings and improvements	\$ 198,249	\$ 6,772	\$ 11,709	\$ (16)	\$ 216,714
Furniture and equipment	48,587	3,523		(1,532)	50,578
Library materials	<u>26,869</u>	<u>2,611</u>		<u>(1,156)</u>	<u>28,324</u>
Total other property, plant and equipment	273,705	12,906	11,709	(2,704)	295,616
Less accumulated depreciation:					
Buildings and improvements	(64,056)	(5,666)		19	(69,703)
Furniture and equipment	(23,513)	(4,600)		1,065	(27,048)
Library materials	<u>(18,701)</u>	<u>(1,642)</u>		<u>811</u>	<u>(19,532)</u>
Total accumulated depreciation	<u>(106,270)</u>	<u>(11,908)</u>		<u>1,895</u>	<u>(116,283)</u>
Other property, plant and equipment—net	<u>\$ 167,435</u>	<u>\$ 998</u>	<u>\$ 11,709</u>	<u>\$ (809)</u>	<u>\$ 179,333</u>
Property, plant and equipment summary:					
Property, plant and equipment not being depreciated	\$ 24,504	\$ 38,023	\$ (11,709)	\$ -	\$ 50,818
Other property, plant and equipment, at cost	<u>273,705</u>	<u>12,906</u>	<u>11,709</u>	<u>(2,704)</u>	<u>295,616</u>
Total cost of property, plant and equipment	298,209	50,929		(2,704)	346,434
Less accumulated depreciation	<u>(106,270)</u>	<u>(11,908)</u>		<u>1,895</u>	<u>(116,283)</u>
Property, plant and equipment—net	<u>\$ 191,939</u>	<u>\$ 39,021</u>	<u>\$ -</u>	<u>\$ (809)</u>	<u>\$ 230,151</u>

In addition to accounts payable for construction costs, the estimated cost to complete property authorized or under construction at June 30, 2004 is approximately \$40,382,000. These costs will be financed by state appropriations, available resources and/or long-term borrowing.

6. DEFERRED REVENUE

Deferred revenue consists of the following at June 30, 2004:

	University
Summer school	\$2,135,230
Prepaid athletic ticket sales and other auxiliary enterprises	<u>2,872,403</u>
	<u><u>\$5,007,633</u></u>

7. LONG-TERM LIABILITIES

Following are the changes in long-term debt and other liabilities for the year ended June 30, 2004 (dollars in thousands):

	University				
	Beginning Balance June 30, 2003	Additions	Reductions	Ending Balance June 30, 2004	Amounts due within one year
Long-term debt:					
Revenue bonds payable	\$ 93,454	\$ 32,265	\$ (2,522)	\$ 123,197	\$ 2,969
Notes payable	9,150		(756)	8,394	874
Capital lease obligations	<u>5,558</u>		<u>(378)</u>	<u>5,180</u>	<u>402</u>
Total long-term debt	108,162	32,265	(3,656)	136,771	4,245
Other liabilities:					
Accrued leave liability	3,684		(3,684)		
Capital projects	<u>1,610</u>	<u>1,392</u>	<u>(1,662)</u>	<u>1,340</u>	
Total other liabilities	<u>5,294</u>	<u>1,392</u>	<u>(5,346)</u>	<u>1,340</u>	
Long-term liabilities	<u><u>\$113,456</u></u>	<u><u>\$ 33,657</u></u>	<u><u>\$ (9,002)</u></u>	<u><u>\$138,111</u></u>	<u><u>\$ 4,245</u></u>

8. REVENUE BONDS AND NOTES PAYABLE

The University issued \$31,480,000 of General Revenue Bonds (2004A) during the period ended June 30, 2004.

Notes and bonds payable at June 30, 2004 consisted of the following:

Description	Balance Outstanding
Student Union and Housing System Refunding and Improvement Bonds, Series 2002, original face value of \$38,255,000, due in annual principal amounts ranging from \$420,000 to a maximum of \$3,355,000, plus interest paid semi-annually from 4.00% to 5.375% through year 2031 collateralized by a pledge of the net revenues of the Student Union and Housing System and certain student fees.	\$ 37,365,000
General Revenue Bonds, Series 2004A, original face value of \$31,480,000, due in annual principal amounts ranging from \$365,000 to a maximum of \$2,205,000, plus interest paid semi-annually from 2.50% to 5.00% through year 2033 collateralized by a pledge of student fees, enterprise revenues, and funds and accounts held under the Resolution.	31,480,000
Student Fee Refunding and Improvement Revenue Bonds, Series 1998, original face value of \$24,060,000, due in annual principal amounts ranging from 315,000 to a maximum of \$2,105,000, plus interest paid semi-annually from 4.20% to 5.15% through the year 2023, collateralized by a pledge of the net revenues of the Student Building System and certain student fees.	22,860,000
Student Fee Refunding Revenue Bonds, Series 1996, original face value of \$14,115,000, due in annual principal amounts ranging from \$1,070,000 to a maximum of \$1,500,000, plus interest paid semi-annually from 4.75% to 5.35% through the year 2010, collateralized by a pledge of the net revenues of the Student Building System and certain student fees.	7,695,000
Student Union and Housing System Refunding Revenue Bonds, Series 1998, original face value of \$7,860,000, due in annual principal amounts ranging from \$45,000 to a maximum of \$1,170,000, plus interest paid semi-annually from 4.25% to 5.125% through the year 2015, collateralized by a pledge of the net revenues of the Student Union and Housing System and certain student fees.	7,615,000
Student Union and Housing System Refunding Revenue Bonds, Series 2003, original face value of \$6,620,000, due in annual principal amounts ranging from \$145,000 to a maximum of \$1,715,000, plus interest paid semi-annually from 2.00% to 5.00% through year 2017, collateralized by a pledge of the net revenues of the Student Union and Housing System and certain student fees.	6,395,000

Description	Balance Outstanding
Student Building Fee Revenue Bonds, Series 2001 original face value of \$4,455,000 due in annual principal amounts ranging from \$165,000 to a maximum of \$360,000, plus interest paid semi-annually from 4.00% to 5.10% through the year 2021, collateralized by a pledge of the net revenues of the Student Building System and certain student fees.	\$ 4,290,000
Student Fee Refunding Revenue Bonds, Series 1999, original face value of \$4,480,000, due in annual principal amounts ranging from \$65,000 to a maximum of \$420,000, plus interest paid semi-annually from 4.30% to 5.20% through the year 2017, collateralized by a pledge of the net revenues of the Student Building System and certain student fees.	4,140,000
Note payable to bank due in equal monthly installments based upon a 20-year amortization of the note, commencing July 1, 1996, plus fixed interest at 4.32%, final payment due September 1, 2016. The note provides for borrowings not to exceed \$5,000,000.	3,729,825
Secured note payable to Boise State University Foundation, Inc., a related party, dated September 28, 2001, due in annual principal payments of \$50,000. Interest is due annually at a variable rate of prime less 50 basis points not to exceed 8% or be less than 3% (3.75% as of June 30, 2004). Proceeds were used by the University's radio station for transmission rights. The note is secured by funds held by the Foundation (see Note 11).	100,000
Line of credit payable to bank due in equal quarterly installments based upon an eight year amortization of the note, commencing November 1, 2003, including interest at variable rates equal to 49% of the lender's prime rate (1.98% at June 30, 2004), final payment due August 1, 2011. The line of credit provides for borrowing not to exceed \$5,000,000	4,564,088
	130,233,913
Premium on bonds	1,357,631
	<u>\$ 131,591,544</u>

There are a number of limitations and restrictions contained in the various bond indentures.

Principal and interest maturities on notes and bonds payable are as follows for the years ending June 30, 2004:

	University	
	Interest	Principal
2005	\$ 6,262,395	\$ 3,843,589
2006	5,957,488	4,450,476
2007	5,788,947	4,693,037
2008	5,598,672	4,921,294
2009	5,398,370	5,155,274
2010-2014	23,773,592	24,618,700
2015-2019	17,662,157	27,586,543
2020-2024	10,467,587	27,645,000
2025-2029	4,981,400	18,635,000
2030-2034	737,219	8,685,000
	<u>\$86,627,827</u>	<u>\$130,233,913</u>

Pledged Revenue—As stated in the bond descriptions above, the University has pledged certain revenues as collateral for debt instruments. The pledged revenue amounts are as follows for the years ended June 30, 2004:

	University			Total
	Series 2004(A)	Series 1998, 2002, and 2003	Series 1994, 1996, 1998, 1999, 2001	
Student fees	\$51,717,418	\$ 4,408,707	\$5,391,306	\$61,517,431
Rentals		3,726,605		3,726,605
Meal plans		1,461,039		1,461,039
Other	1,338,296	1,104,816	454,471	2,897,583
Sales & service revenues	26,259,271			26,259,271
Facilities and administrative recovery	1,703,163			1,703,163
Investment income	<u>120,305</u>	<u>975,085</u>	<u>236,472</u>	<u>1,331,862</u>
	<u>\$81,138,453</u>	<u>\$11,676,252</u>	<u>\$6,082,249</u>	<u>\$98,896,954</u>

9. CAPITAL LEASE OBLIGATIONS

The University has entered into various capital lease agreements covering buildings and equipment. At June 30, 2004, the net book value of assets under capital lease total approximately \$3,887,000 for buildings and improvements and approximately \$1,293,000 for equipment. The University leases a building from the Boise State University Foundation through the State Board of Education. These amounts are included in property, plant and equipment. Future minimum lease obligations under these agreements are as follows for the year ending June 30, 2004:

	University		
	Building	Equipment	Total
2005	\$ 426,793	\$ 288,267	\$ 715,060
2006	424,289	288,267	712,556
2007	430,548	288,267	718,815
2008	425,696	288,267	713,963
2009	424,901	288,267	713,168
2010-2014	2,138,914	288,267	2,427,181
2015-2019	<u>1,280,452</u>	<u> </u>	<u>1,280,452</u>
Total minimum obligations	5,551,593	1,729,602	7,281,195
Less interest	<u>(1,664,794)</u>	<u>(436,460)</u>	<u>(2,101,254)</u>
Present value of minimum obligations	<u>\$ 3,886,799</u>	<u>\$ 1,293,142</u>	<u>\$ 5,179,941</u>

10. RETIREMENT PLANS

Public Employee Retirement System of Idaho—The Public Employee Retirement System of Idaho (PERSI), a cost-sharing multiple-employer public retirement system, was created by the Idaho State Legislature. It is a defined benefit plan requiring that both the member and the employer contribute. The plan provides benefits based on members' years of service, age, and compensation. In addition, benefits are provided for disability, death, and survivors of eligible members or beneficiaries. Designed as a mandatory system for eligible state and school district employees, the legislation provided for other political subdivisions to participate by contractual agreement with PERSI. The benefits and obligations to contribute to the plan were established and may be amended by the Idaho State Legislature. Financial reports for the plan are available from PERSI upon request.

After 5 years of credited service, members become fully vested in retirement benefits earned to date. Members are eligible for retirement benefits upon attainment of the ages specified for their employment classification. For each month of credited service, the annual service retirement allowance is 2.00% of the average monthly salary for the highest consecutive 42 months.

For the year ended June 30, 2004, the required contribution rate for general employees was 9.77% and 5.86% of covered payroll for the University and its employees, respectively. The University contributions required and paid were \$2,799,452, \$2,910,200, and \$3,071,353 for the three years ended June 30, 2004, 2003, and 2002, respectively.

Optional Retirement Plan—Effective July 1, 1990, the Idaho State Legislature authorized the Idaho State Board of Education to establish an Optional Retirement Plan (ORP), a defined contribution plan, for faculty and exempt employees. The employee contribution requirement for the ORP is based on a percentage of total payroll. Employer contributions are determined by the State of Idaho. The plan provisions were established by and may be amended by the State of Idaho.

New faculty and exempt employees hired July 1, 1990 or thereafter automatically enroll in the ORP and select their vendor option. Faculty and exempt employees hired before July 1, 1990 had a one-time opportunity to enroll in the ORP. Enrollees in the ORP no longer belong to PERSI. Vendor options include Teachers Insurance and Annuity Association - College Retirement Equities Fund and Variable Annuity Life Insurance Company.

Participants are immediately fully vested in the ORP. Retirement benefits are available either as a lump sum or any portion thereof upon attaining 55 years of age. The contribution requirement (and amount paid) for the year ended June 30, 2004 was \$7,034,537, which consisted of \$3,758,482 from the University and \$3,276,055 from employees. These contributions represented approximately 7.72% for the year ended June 30, 2004.

Although enrollees in the ORP no longer belong to PERSI, the University is required to contribute to PERSI 3.03% of the annual covered payroll. These annual supplemental payments are required through July 1, 2015. During the years ended June 30, 2004 and 2003, this supplemental funding payment made to PERSI was \$1,424,342 and \$1,333,052. This amount is not included in the regular University PERSI contribution discussed previously.

Postretirement Benefits Other Than Pensions - Employees who qualify for retirement under PERSI or ORP are eligible to use 50% of the cash value of their unused sick leave to continue their medical insurance coverage through the University. The University partially funds these obligations by depositing .65% of employee gross payroll to PERSI, who administers the plan as a cost-sharing, multiple-employer plan. The total contributions for the year ended June 30, 2004 were \$491,809.

The University also offers a life insurance plan for retired employees. During the year ended June 30, 2004, the University made expenditures totaling \$145,127 to purchase life insurance for approximately 190 retired employees receiving these benefits. This program is accounted for by the University on a pay-as-you-go basis; however, the GASB has issued Statement No. 45 that will require the University to record this obligation on an actuarially determined basis (Note 1). An actuarially determined valuation of this obligation would likely be significantly higher than the amount currently accrued.

11. RELATED PARTY TRANSACTIONS

Component Units—The Boise State University Foundation, Inc. (the “Foundation”) was established for the purpose of soliciting donations and to hold and manage invested donations for the exclusive benefit of the University. The Foundation’s net assets represent 82.8% of the combined component unit as presented in the financial statements and as such, the Foundation has been determined by management to be a major component unit. Condensed financial information for the Foundation as of June 30, 2004, is as follows:

Boise State University Foundation, Inc.
Condensed Statement of Net Assets
June 30, 2004

	Foundation
ASSETS:	
Cash and Cash Equivalents	\$ 6,744,703
Investments	48,824,638
Property—net	9,312,171
Investment in lease	3,977,450
Other assets	<u>4,201,306</u>
 TOTAL ASSETS	 <u>73,060,268</u>
LIABILITIES:	
Long term debt	5,986,900
Amounts held in custody for others	9,987,976
Other liabilities	<u>1,859,211</u>
 TOTAL LIABILITIES	 <u>17,834,087</u>
NET ASSETS:	
Invested in capital assets—net of related debt	9,312,171
Restricted—expendable	14,026,109
Restricted—nonexpendable	30,158,893
Unrestricted	<u>1,729,008</u>
 TOTAL NET ASSETS	 <u>55,226,181</u>
 TOTAL LIABILITIES AND NET ASSETS	 <u>\$73,060,268</u>

Boise State University Foundation, Inc.
Condensed Statement of Revenues, Expenses and Changes in Net Assets
June 30, 2004

	Foundation
OPERATING REVENUES:	
Gifts	\$ 8,188,387
Other	<u>197,106</u>
Total operating revenue	<u>8,385,493</u>
OPERATING EXPENSES	1,209,031
OPERATING INCOME	7,176,462
NONOPERATING REVENUES (EXPENSES):	
Payments to BSU	(5,393,791)
Other	<u>5,378,736</u>
TOTAL NONOPERATING REVENUES (EXPENSES)	(15,055)
TOTAL OTHER REVENUE	<u>10,990</u>
INCREASE IN NET ASSETS	<u>\$ 7,172,397</u>

(a) Investments—The Foundation accounts for its investments at fair value in accordance with GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*. The Change in unrealized gains or losses on the carrying value of investments was approximately \$3.6 million for the year ending June 30, 2004 and is included in other nonoperating revenues.

The Foundation's investments are categorized below to give an indication of the level of risk assumed by the Foundation at June 30, 2004. Category 1 includes investments that are insured or registered, or for which the securities are held by the Foundation or its agent in the Foundation's name. Category 2 includes uninsured and unregistered investments for which the securities are held by the counterparty's trust department or agent in the Foundation's name. Category 3 includes uninsured and unregistered investments for which the securities are held by the counterparty whether or not in the Foundation's name; or by the counterparty's trust department or agent but not in the Foundation's name. Balances of investments by such categories at June 30, 2004 consisted of the following:

	Foundation			
	Investment Risk Category			Total Carrying Amount
	1	2	3	
Equity Securities	\$ -	\$31,745,730	\$ -	\$31,745,730
Mortgage backed securities, municipal and corporate bonds		9,884,601		9,884,601
U.S. Treasury and agency securities		5,466,278		5,466,278
Private equity investment		513,847		513,847
Insurance annuities	<u>312,961</u>	<u></u>	<u></u>	<u>312,961</u>
	\$ 312,961	\$47,610,456	\$ -	\$47,923,417

The following is a reconciliation of the amounts recorded in the condensed statement of net assets and the amounts categorized above as investments.

	Foundation		Total
	Investments and Funds Held by Trustee	Beneficial Interest in Perpetual Trust	
Amount reported in statement of net assets	\$46,097,196	\$2,727,442	\$48,824,638
Less amount categorized with cash and cash equivalents	<u>(831,355)</u>	<u>(69,866)</u>	<u>(901,221)</u>
Amount categorized with investments	<u>\$45,265,841</u>	<u>\$2,657,576</u>	<u>\$47,923,417</u>

(b) Pledges Receivable—The Foundation reports pledges made by donors at the date of pledge, if legally enforceable, less an allowance, if any, for uncollectible pledges based on past collection experience.

(c) Cash and Cash Equivalents—\$5,944,555 of the amounts held in cash and cash equivalents at June 30, 2004 are restricted by donors.

(d) Property—Property is stated at cost when purchased or constructed, or if acquired by gift, at the estimated fair market value at the date of the gift. Cost includes expenditures for major improvements and the net amount of interest cost associated with significant capital additions. Gains and losses from sales are included in income as they occur. Routine repairs and maintenance are charged to operating expense in the period in which the expense was incurred.

Depreciation is computed using the straight-line method over the estimated useful life of the assets, generally 40 years for buildings.

All activity for the year ended June 30, 2004 was as follows:

	Foundation			
	Balance June 30, 2003 (as restated)	Additions	Deletions	Balance June 30, 2004
Property not depreciated:				
Land	\$ 310,416	\$ -	\$ -	\$ 310,416
Depreciated property:				
Buildings	10,134,113			10,134,113
Less accumulated depreciation	<u>(878,787)</u>	<u>(253,571)</u>	<u></u>	<u>(1,132,358)</u>
Depreciated property—net	<u>9,255,326</u>	<u>(253,571)</u>	<u></u>	<u>9,001,755</u>
Property—net of depreciation	<u>\$ 9,565,742</u>	<u>\$ (253,571)</u>	<u>\$ -</u>	<u>\$ 9,312,171</u>

During 2001, the Foundation completed construction on two engineering buildings. The Foundation intends to donate these buildings to the University following retirement of the bond financing necessary for the construction of such buildings. The donation will be recorded as “distribution of capital assets” in the statement of revenues, expenses and changes in net assets in the year of the donation. The Foundation assets will decrease in that year by the net book value of the buildings.

(e) Net Investment in Financing Lease—The Foundation leases the Boise State University College of Technology Building, land and equipment to the State of Idaho through the Idaho State Board of Education. The lease provides for automatically renewable annual rental payments including base rent equal to the debt service requirements of the Foundation for the Certificates of Participation (“Certificates”), not to exceed \$500,000, and additional rent equal to the executory costs of the lease incurred by the Foundation. The excess of annual rental payments, excluding executory costs, over the net investment of \$4,223,236 is equal to the future interest costs on the Certificates. The Board has the right to cancel the lease should the State legislature fail to appropriate funds for the annual rental payments. The lease agreement does not specify a final lease term but is expected to expire when the related debt is repaid. At the end of the lease, the Foundation will either donate the building to the University or continue to lease the building for \$1 annually.

(f) Donated Services—The University provided staffing and other general office support of the Foundation totaling \$398,458 during the year ended June 30, 2004. Additionally, volunteers make substantial contributions of time to support the Foundation for which no value is assigned. The value of volunteer services is not reflected in the accompanying financial statements since they are not susceptible to objective measurement or valuation.

(g) Revenue Recognition—All income, gains and losses arising from the sale, collection or disposition of investments and other noncash assets are accounted for in the fund owning such assets.

Noncash tangible assets, other than marketable securities, contributed to the Foundation are recorded on the date legal title passes at the appraised value when it is provided by an independent third party acceptable to Foundation management. If no such independent third party appraisal is available, the asset is recorded at an objective, verifiable basis which is, in the judgment of Foundation management, a fair value to the Foundation for its purposes. If it is not practicable to determine an objective, verifiable valuation, the contribution is not recorded. Marketable securities contributed to the Foundation are recorded at market value at the date of gift. In-kind contributions of labor and services are not recorded.

(h) Long-Term Debt—In 1988, the Foundation issued \$5,620,000 in tax-exempt Certificates of Participation to fund construction of the BSU College of Technology Building.

In 1991, the Foundation refunded the Series 1988 Certificates of Participation and issued \$6,045,000 in tax-exempt Certificates of Participation.

In 2002, the Foundation refunded the Series 1991 Certificates of Participation and issued \$4,855,000 in tax-exempt Certificates of Participation. The 2002 Certificates are collateralized by rights under a lease between the Idaho State Board of Education and the Foundation, the Boise State University College of Technology Building, and reserve funds held by a trustee. Such reserve funds are reported in the statement of net assets as funds held by a trustee. The bonds are due in annual principal payments from \$220,000 to \$415,000 through October 1, 2017. At June 30, 2004, the remaining principal balance on the Series 2002 Certificates totaled \$4,330,000 at interest rates ranging from 3.0% to 5.35%.

Mandatory Sinking Fund Redemptions are required under a trust indenture which coincide with the rental payments under the lease agreement with the Board of Directors.

In 1998, the Foundation issued \$5,425,000 in tax-exempt Multi-Mode Variable Rate Revenue Bonds to fund construction of two engineering buildings. The 1998 bonds are secured by an Irrevocable Direct Pay Letter of Credit issued by Wells Fargo Bank. The bonds are due August 1, 2008 and pay interest at a variable interest rate that was 1.0% at June 30, 2004. At June 30, 2004, the outstanding principal balance on the bonds totaled \$1,665,000.

All activity for the year ended June 30, 2004 was as follows:

	Foundation			
	Balance June 30, 2003	Additions	Reductions	Balance June 30, 2004
Certificates	\$4,550,000	\$ -	\$220,000	\$4,330,000
Notes payable	<u>1,665,000</u>	<u> </u>	<u> </u>	<u>1,665,000</u>
	<u>\$6,215,000</u>	<u>\$ -</u>	<u>\$ 220,000</u>	<u>\$ 5,995,000</u>

Principal maturities of all certificates and notes payable at June 30, 2004 is as follows:

Year Ended June 30	Foundation	
	Interest	Principal
2005	\$ 218,271	\$ 230,000
2006	210,767	235,000
2007	202,600	250,000
2008	192,750	255,000
2009	159,901	1,930,000
2010-2014	597,765	1,540,000
2015-2019	<u>168,654</u>	<u>1,555,000</u>
	1,750,708	5,995,000
Less discount	<u> </u>	<u>(8,100)</u>
	<u>\$ 1,750,708</u>	<u>\$ 5,986,900</u>

(i) Amounts Held in Custody for Others—The Bronco Athletic Association (the “BAA”) transferred assets to the Foundation for investment and management. Included in amounts held in custody for others on behalf of the BAA is \$9,020,368.

The Boise State Radio Network (the “Network”), an operating division of the University, transferred assets to the Foundation for investment and management. Included in amounts held in custody for others on behalf of the Network is \$529,622.

The Foundation Shares a remainder interest in an irrevocable trust (the “Trust”) that has transferred its assets to the Foundation for investment and management. Included in amounts held in custody for others on behalf of the Trust is \$437,986.

(j) Other Related Transactions—On September 28, 2001, the University executed a secured note payable with the Foundation for \$300,000 due in annual payments of \$50,000 plus interest. At June 30, 2004, \$100,000 is outstanding and included in liabilities and is secured by funds held by the Foundation of approximately \$530,000 which are included in due from Boise State University Foundation on the University’s statement of net assets.

The BAA is a fund raising organization that provides financial assistance and services to the University intercollegiate athletic department. Contributions received by the University from this organization are recorded as gifts. Fund balance of the BAA at June 30, 2004 was \$11,469,972 of which \$9,832,294 was restricted to uses designated by the donors and \$1,591,457 was invested in capital assets. Unrestricted fund balance was \$45,591 at June 30, 2004.

The BAA invests funds through the Foundation. \$9,020,368 is recorded as Due from Boise State University Foundation at June 30, 2004 on BAA’s statement of net assets. These amounts are included in the investment balance of the Foundation and make up the majority of the amounts held in custody for others by the Foundation.

Included in gifts and salary expense for the BAA are approximately \$370,000 of in-kind contributions from the University.

The Foundation and BAA issue separate audited financial statements. Copies of these reports may be obtained from the Office of the Vice President of Finance and Administration at the University.

Other Related Entity—The Boise State University Alumni Association (the “Association”) was established to develop and maintain a positive relationship with alumni and friends of the University and to provide the leadership to guide these relationships to benefit the University. Net assets of the Association at June 30, 2004 were approximately \$1,098,313 (unaudited).

12. NATURAL CLASSIFICATIONS WITH FUNCTIONAL CLASSIFICATIONS (DOLLARS IN THOUSANDS):

Operating Expenses	University											Total
	2004											
	Instruction	Research	Public Service	Libraries	Student Services	Plant Operations	Institutional Support	Academic Support	Auxiliary Enterprises	Scholarships	Depreciation	
Personnel cost	\$62,687	\$5,550	\$5,055	\$3,130	\$6,915	\$4,237	\$ 8,630	\$7,661	\$14,843	\$ 1,256	\$ -	\$119,964
Services	3,221	1,733	2,892	279	863	1,766	3,094	1,039	6,822	30		21,739
Suppliers	3,866	1,115	795	180	516	826	446	831	11,817	6		20,398
Insurance, utilities and rent	863	32	546	40	282	2,498	672	307	1,916			7,156
Scholarships and fellowships	839	302	69		16		23	17	2,283	7,385		10,934
Depreciation											11,908	11,908
Other	553	33	163	1	47	4	293	47	957	137		2,235
Total operating expenses	<u>\$72,029</u>	<u>\$8,765</u>	<u>\$9,520</u>	<u>\$3,630</u>	<u>\$8,639</u>	<u>\$9,331</u>	<u>\$13,158</u>	<u>\$9,902</u>	<u>\$38,638</u>	<u>\$ 8,814</u>	<u>\$11,908</u>	<u>\$194,334</u>

13. CONTINGENCIES AND LEGAL MATTERS

Revenue from federal research and service grants includes amounts for the recovery of overhead and other costs allocated to these projects. The University may be required to make refunds of amounts received for overhead and other costs reimbursed as a result of audits by agencies of the federal government. University officials are of the opinion that the effect of these refunds, if any, will not have a significant effect on the financial position of the University.

The University is a defendant in litigation arising from the normal course of operations. Based on present knowledge, the University's administration believes any ultimate liability in these matters will not materially affect the financial position of the University.

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**INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER
FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS
BASED ON AN AUDIT PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS**

State Board of Education
Boise, Idaho

We have audited the financial statements of the Boise State University (the "University") and its discretely presented component units as of and for the year ended June 30, 2004, and have issued our report thereon dated October 22, 2004. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

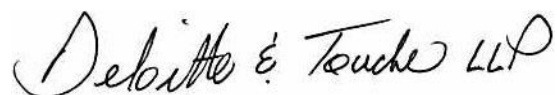
Internal Control Over Financial Reporting

In planning and performing our audit, we considered the University's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the University's internal control over financial reporting and its operation that we consider to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the University's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of the State Board of Education, management, federal awarding agencies, and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.



October 22, 2004